



Best Choice for Investment-Islamic Equity or Sukuk?

¹Akhmad Yusuf Khoiruddin

¹Lecturer, Faculty of Islamic Economics and Business
State Islamic University Sunan Kalijaga Yogyakarta-Indonesia
(Corresponding Author: gus_fur@yahoo.com)

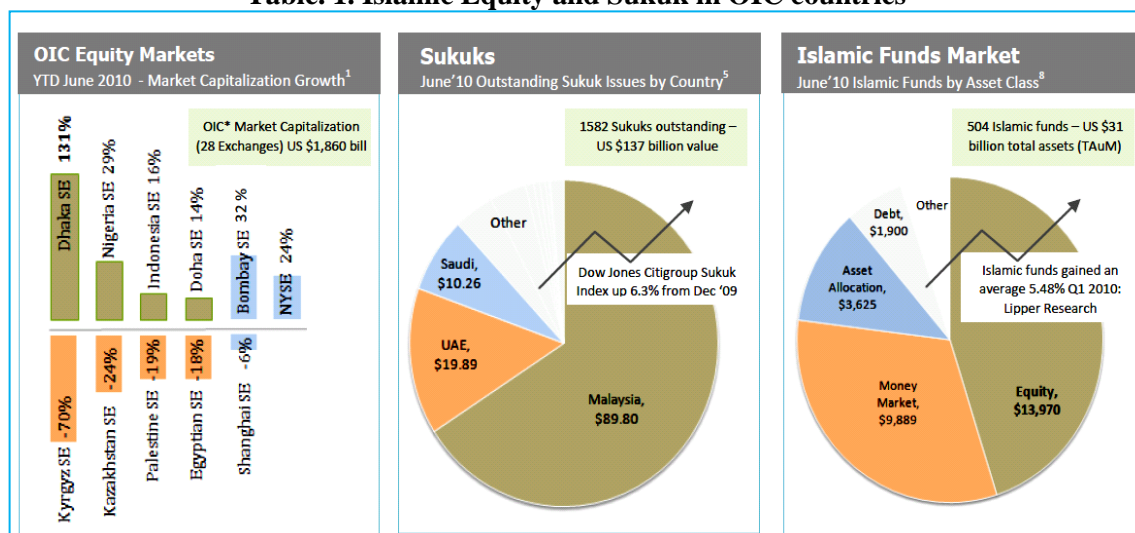
Abstract: Islamic capital market is an important part in the development of Islamic economics especially in providing a mobilization of fund to the efficient economic source and provides liquidity to the Islamic finance institution such as Islamic bank etc. There are two main instruments in Islamic capital market namely Islamic equity and sukuk. In investment point of view, the raise question is what is the best choices of investment between Islamic equity and sukuk. The objective of this research to describe the return and the risk profile of Islamic equity and *sukuk* in the world. Second, this paper will conduct study about the chance to arrange Islamic portfolio investment consist of two securities namely, *sukuk* and Islamic equity. To analyze this, researchers will use some tools in capital market theories including portfolio theory, minimum variance portfolio, Sharpe, Jansen, Treynor and RAP model. Thirdly, this paper will test the different level of return between Islamic equity and *sukuk*. The main instrument is statistical analysis, and SPSS. This research found that based on quantitative analysis Sukuk provides a better return as well as lower risk. However, in the short term, Islamic equity is often provide a higher return than sukuk. From the several measurement tools, this research also finds that sukuk has a better performance than Islamic equity. In contrast, statistical testing shows that there are no significance differences return between Islamic equity and sukuk from 2005 till 2010. Therefore, this research suggest that investor/people who want to increase their wealth and prefer to invest in Islamic capital market, they should make a Islamic portfolio include some securities component, sukuk, Islamic equity, Islamic unit trust, Islamic etf, etc.

Keywords: Islamic Investment, Sukuk, Islamic Equity, Risk and Return.

Introduction

The Islamic finance industry has expanded enormously in response to a profusion of investment products, a scenario that has been fuelled by an increasing demand for investments that comply with Islamic law (Wahida and Rafisa, 2011). Started by the huge development of Islamic banking since 1970, recently there are many Islamic finances including in institution, product and regulations around the world. Islamic capital market is one of the most attractive sector in Islamic finance not only because of its Islamic value, i.e capital market which is comply with shariah but also because of its attractiveness for the economic player, namely company, individual and government.

Islamic capital market is an important part in the development of Islamic economics in the future. It is because of its several functions on term of economy. First, it provides a mobilization of fund to the efficient economic source. Second, it provides liquidity to the Islamic finance institution such as Islamic bank etc which they can raise the fund easier and cheaper. Third, Islamic capital market can definite the transparency of Islamic enterprise. Therefore, in the whole of Islamic countries where the Islamic finance disperses, the existence of Islamic capital market is consequential (Ardiansyah & Qoyum, 2011).

Table. 1. Islamic Equity and Sukuk in OIC countries

Sources: Dinar Standard and Islamic International Rating Agency, 2010

Islamic capital market has two main instruments (securities) namely, Islamic equity and Islamic Bond (sukuk). Islamic bond represented as the ownership of assets which proportional with the time, cash flow produced by the underlying assets in the group of capitals that managed by sukuk holders. Like a conventional bond, sukuk will pay predicted returns for its holders. Nevertheless, the basic difference among them is conventional bond is represented as the pure debt, whereas sukuk represent as the ownership of assets or project (Abbas Mirakhori, 2008). While, Islamic Equity is the equity or stock that complies with shariah requirement which is ruled by the Shariah Advisory Commission (SAC).

The Islamic equities and *sukuk* market has grown rapidly over the last few years in terms of size, numbers and sophistication. Islamic equity can be used as a financial resource for the company that want to increase their performance. *Sukuk* has become an alternative for conventional bonds and being used in financing for the last twenty years. It provides sovereign governments and corporations with access to the huge and growing Islamic liquidity pool, in addition to the conventional investor base (Majid, Sahimi, Abdullah, 2010).

Both two instruments i.e. Islamic equity and *sukuk* increased rapidly in the three last decades not only in the Muslim countries but also in the west countries. The pie chart above describes the increase of Islamic equity and *sukuk* in the world. Strongest Islamic capital market is Malaysia, followed by Saudi Arabia. Equity markets: Indonesia grew the most YTD within the large OIC exchanges. Dhaka, Nigeria and Doha are the fastest growing overall. From Year-end 2004 to June 2010, the aggregate market capitalization of the OIC member country exchanges has grown 59.8%³ from US \$1,148 billion to US \$1,834 billion. The four largest Exchanges by market capitalization are Saudi Tadawul, Bursa Malaysia, Indonesian SE, and Istanbul SE – amongst which, the Indonesian has been the fastest growing in market cap this past year (+15.8% since last June) (IIRA, 2010).

As of June 2010, there were a total of 1582 global *Sukuk* (Islamic Bonds) issues outstanding with a total value of US \$137 billion. The *Sukuk* market has seen positive developments in the aftermath of the global financial crisis and industry woes, with worldwide issuances increasing to US\$23 billion in 2009 from US \$19 billion in 2008. US \$9.7 billion of the total issuances in 2009 were from Malaysia. Based on the Dow Jones Citigroup *Sukuk* Index, which measures the performance of *Sukuks* globally, the issuance has climbed 6.3% from its low in December (IIRA, 2010).

The promising growth of Islamic equity and *sukuk* provides some benefits that are very attractive for the all Islamic stakeholders especially for the company issuers and investor. For

the company issuers, it will give some benefits include easy to issue securities either Islamic equity or *sukuk*, cheaper cost of capital, since the demand for the securities is high. In the perspective of investors, the huge development of these securities gives advantages namely, more liquid markets, diversifiable markets since it has many securities with different classes and provide higher chance to the investor to get high return which is from income (dividend, *ijarah fee*) or from capital gain.

Therefore, it is very important for the investors who want to invest their capital in Islamic market. They have to choose the best securities that can give higher return at same risk level or can provide lower risk at the same level of return. In order to analyze the best securities, investor can use many tools that almost all provided in theories. As a result, if the investor can analyze in the right steps, they can get their investment objective.

There are many research conducted to analyze the performance of Islamic capital market area. For example, Ardiansyah and Qoyum (2010) conducted their study about the Islamic equity return in Malaysia's Islamic capital market. The research found that the variability of the return of Islamic equity in which is there are significant gap in the return of Islamic equity. Several companies give a high return for the equity holders, but several of this equity gives small return even in negative return.

The main objective of this paper, firstly to describe the return and the risk profile of Islamic equity and *sukuk* in the world. This is very important to detect the different of return and risk at an individual level. Second, this paper will conduct study about the chance to arrange Islamic portfolio investment consist of two securities namely, *sukuk* and Islamic equity. To analyze this, researchers will use some tools in capital market theories including portfolio theory, minimum variance portfolio, Sharpe, Jansen, Treynor and RAP model. The thirdly, this paper will test the different level of return between Islamic equity and *sukuk*. The main instrument is statistical analysis, and SPSS.

Literature Review

Maqosid Shariah

The issue of development of Islamic capital market is not separate from the issue of development of capital market in general that play a vital role to attract savings and channeling them for the productive purposes (Ali, 2002). In addition Islamic capital market is also an integral system with the Islamic economic that the main objective is to realize the objective of shariah.

The shariah objectives or Maqosidus syariah are the objectives and the rationale of the *shariah*. A comprehensive and careful examination of the *shariah* rulings entails an understanding that the *shariah* aims at protecting and preserving *maslahah* in all aspects and segments of life. Many *shariah* texts state clearly the reasoning behind certain *shariah* rulings, suggesting that every ruling in *shariah* comes with a purpose, which is to benefit the *mukallaf*. For example, when the Qur'an prescribes *qishos* (retaliation), it speaks of the rationale of it, that applying retaliation prevents further killing "*There is life for you in qishos*."

According to Al-Imam Ghazali "The objective of the *shariah* is to promote the well-being of all mankind, which lies in safeguarding their faith (*din*), their human self (*nafs*), their intellect (*'aql*), their posterity (*nasl*) and their wealth (*maal*). Whatever ensures the safeguard of these five, serves public interest and is desirable." And create the *maqosid assyariah*, it have the *siyasah syariah* which very valuable in promoting the objectives of *syariah*.

This paper will try to discuss and provide an overview in the economic term. Islamic economic has main objective *maslahah*. In addition, *Maslahah* can be reach by the good system in Islamic economic. The problem is how about the best system in Islamic economic? Actually in Islamic economy there are have many parts; endowment, opportunities, distribution and growth. First, endowment describes the ownership of factors of production. Islam has its own

unique concept of ownership. Islam gives a number of instructions that have a bearing on ownership of factors of production. If we attract to the economic concept, there are many factors of productions such as natural resource, labour, capital and entrepreneurship.

Many Islamic values and norms facilitate provision of opportunity to all, especially to the less advantages sections of society. Islamic values emphasise that everybody should receive an equal treatment irrespective of his race, colour or gender. It means that in Islamic economic concept everybody have same opportunity to access the resource, do difference among them. Another important Islamic principle having implications for the provision of opportunities is the elimination of interest. By prohibiting interest the Islamic system removes the disparities. It is also provides greater opportunities for the poor to have access to credit.

Islamic Equity

Islamic Capital Market can be defined as the capital market that implements the principles of Islamic Law in business activities which not involve in things prohibited by the Islamic Law such as usury, gambling, speculation, etc. Islamic capital market is important to develop Islamic finance in the world.

In the Islamic capital market, all instruments should be approved by shariah advisory council (SA). In classifying these securities, the Shariah Advisory will collect several informations to decide all securities. The Shariah advisory gathered information on the companies from various sources, such as company annual financial reports, company responses to survey forms and through inquiries made to the respective company's management.

Islamic financial system has important rule to define the financial activity as prescribed by shariah law. In financial activity, many transactions are prohibited by shariah rule. These include bubble economic, injustice economic and the economic gap between real market and financial market. Therefore, the main role of Islamic finance is the solution to the above problems (Ismail, 1999).

In the financial system there are two main sources of financing. Debt-based financing and equity-based financing. In the debt-based financing the most popular instrument that will use to develop Islamic instrument are Al bay' bitsaman 'ajil, Al-murabahah, al-ististna, and al-ijarah. Otherwise, in equity-based financing the significant instrument is based on the Al-mudharabah contract and al-musyarakah contract.

Islamic capital market is essential to develop Islamic finance in the world. This institution has several meaning for the Islamic finance;

- a. Provide the fund source mobilization that will tend to the allocation of the efficient economic source.
- b. Provide liquidity to the Islamic finance agent, that they can get the fund easier and cheaper.
- c. To definite the transparency of Islamic enterprise.

There are two main instrument in Islamic capital market; Islamic equity and sukuk (Islamic bond). Islamic bond represented as the ownership of assets which proportional with the time, cash flow produced by the underlying assets in the group of capitals that managed by sukuk holders. Like a conventional bond, sukuk will pay predicted returns for it's holders. Nevertheless, the basic difference among them is conventional bond is represented as the pure debt, whereas sukuk represent as the ownership of assets or project (Abbas Mirakhor, 2008).

In classifying these securities, the SAC received input and support from the SC. The SC gathered information on the companies from various sources, such as company annual financial reports, company responses to survey forms and through inquiries made to the respective company's management. The SC, through the SAC, continues to monitor the activities of all companies listed on Bursa Malaysia to determine their status from the Shariah perspective (Shariah Advisory Council, 2009).

The SAC has applied a standard criterion in focusing on the activities of the companies listed on Bursa Malaysia. As such, subject to certain conditions, companies whose activities are not contrary to the Shariah principles will be classified as Shariah compliance securities. On the other hand, companies will be classified as Shariah non-compliant securities if they are involved in the following core activities:

What is Sukuk

Sukuk (plural of sakk) had been extensively used by Muslim in the middle ages, as papers representing financial obligations originating from trade and other commercial activities. However, sukuk as applied in the capital markets pertains to the process of securitisation. According to AAOIFI, sukuk are certificates of equal value that represent an undivided interest in the ownership of an underlying asset, usufruct and services or assets of particular projects or special investment activity.

The History of sukuk started from Jordan in 1978. So far there have been several countries that issue sukuk. It can be characterized by the existence of government securities issued in sukuk. However, there are also several countries that do not issue state bonds but sukuk have been issued by private corporate issuers. These countries are Bahrain, Dubai, Qatar, Pakistan, Malaysia, Saxony-Anhalt (state in Germany), and other countries. Jordan by Law No. 13/1978 allows the Jordan Islamic Bank to issue Muqaradlah Bond Act of 1981, so though that act has been created since the year 1978 but Islamic bonds issued in 1981. Instruments sukuk (from the Arabic, which literally means the bonds) was booming since the first Malaysia International sukuk issued in 2002 that average sukuk issued using the scheme ijara (rent) to finance a project.

Viewed in terms of time, Pakistan could be called as the first country to issue sukuk, namely in 1980 by publishing the Mudaraba Company and Mudharabah Ordinance. In early 2005 Pakistan Islamic state to sell bonds (sukuk) to finance the first government budget deficits especially pressing and government spending. Value is approximately U.S. \$ 300-500 million with a five-year period. Bahrain is also an international Islamic bonds issued by the Bahrain Monetary Agency Al-Ijarah Sukuk was worth U.S. \$ 100 and U.S. \$ 70 Million, each a three-year and five years. Sukuk are used to finance government infrastructure. Dubai, in the year 2005 also issued international sukuk by Emirates Airlines worth U.S. \$ 500-600 million to finance the construction of international airport and marketed in Asia, Africa, Europe including the UK. In addition to Bahrain and Dubai, the Middle east countries that sukuk was issued by Qatar, the Qatar Global Sukuk of U.S. \$ 700 million with a maturity of seven years.

Malaysia became the first country to issue sukuk with a denomination of international U.S. dollar. Early sukuk were sold in 2002, and sells. The Malaysian Global Sukuk (MGS) initially was issued of U.S. \$ 350 million with a five-year period but have three times oversubscribed, so published by the value of U.S. \$ 600 million. And in the year 2006, Malaysia will issue ijara sukuk worth 400 billion ringgit (U.S. \$ 107 million) for the period of one year. Sukuk in Malaysia until the end of 2004 reached 31.69% increase from the total value of bonds listed in the Malaysian capital market, while in Indonesia the same year reached Rp1, 424 trillion, or 2.42% of the total value of bond emissions in Indonesia in the amount of Rp.58, 791.354 trillion (Fitriani, 2005)

In economic terms, there are three common types of sukuk; namely fixed-income sukuk; asset-backed sukuk (ABS); and hybrid sukuk (Zawya, 2009). Sukuk can be of many types depending on Islamic contracts or principles of financing and trades used in the structuring process AAOIFI has issued standards as guidelines for 14 different types of sukuk, which can be classified as tradable and non-tradable, development and industrial project financing. However, the most common principles used in sukuk structuring are mudharabah, musharakah, murabahah, ijarah, BBA, salam and istisna'.

Based on the recourse over underlying asset, currently issued Sukuk can be classified into Asset-based and Asset-backed, which are semantically similar descriptions but mask significant differences in credit risk.

Asset Based Sukuk

Sukuk are structured such that investors have a beneficial interest only in the cash flow generated by the underlying asset. Assets are usually sold by the originator to SPV (Special Purpose Vehicle) in the form of trust. The trustee issues certificates representing the investor's ownership interest, while the proceeds are used to purchase the assets. The investors receive a distribution income representing a proportion of the returns generated by the assets.

In an asset-based Sukuk, it is clearly determined that the credit of Sukuk reflects that of the originator rather than the underlying assets. This is because the investors do not have any recourse to the underlying assets in the event of default. The Sukuk holders will ordinarily rank as senior unsecured creditors of the originator. They would rank with other senior unsecured creditors of the originator company.

Asset Backed Sukuk

Asset backed Sukuk represent a true sale. The underlying asset has been validly transferred to the SPV on behalf of the investors. However, the underlying asset should generate income so the profit is solely come from the asset. In the event of insolvency of the originator, the underlying assets will remain completely separate from the originator. In addition, the risk of any insolvency proceedings being brought against SPV should be remote, while the investors has the full claim over the underlying asset, without any risk of the sale subsequently being overturned by the local or Sharia courts.

Islamic capital market posted the significant increase for the last three decades, especially in the developed markets, like United States. Many studies have been conducted to test the efficiency of stock markets with respect to corporate event announcements. In addition, there are also many researcher look at the efficiency of the market portfolio of the investor which are Islamic equity and sukuk or Islamic bond investment. However, Islamic capital market has specific rule because there are must be complied by shariah principle. All of these principles are regulated by the shariah advisory council (SAC) as the important board for the capital market in Malaysia.

Malaysia is well known as a country has a big proportion of Islamic capital market in their economic structure. This term paper focuses to study about portfolio performance between Islamic equity and sukuk. Moreover, this study also discusses about the relationship of the risk and return which is related to the portfolio.

Salman and Khalid (2001) examined the semi strong form efficiency of stock market in Pakistan with the length of data period is July 01, 1998 to December 31, 2000. Total 15772 news headlines are collected in which 10510 are taken from Business Recorder and 5262 from Dawn. And also, during this sample period there are 619 days in which Karachi Stock exchange was open and trading took place. The result is, there is relationship significant statistically in case of trading volume but insignificant in case of stock returns.

Khalid A. Husein (2004) in his paper entitled, "Ethical Investment: Empirical Evidence From FTSE Islamic Index", with the primary objective is to examine whether return earned by investors who purchases shares in FTSE Global Islamic index are significantly different from those of the FTSE All world index. He findings indicates that the application of ethical screens does not have an adverse impact on the FTSE Global Islamic index performance.

Moreover, Sam and Manochehr () finds in his paper about risk and return of Islamic Stock Market Indexes. They examine the stochastic properties of the Islamic index and determined that, like other indexes, its movements over time are purely random. In addition,

they turned to investigate the relation between DJIMI and the broad stock market represented by the Wilshire 5000 index. By using the co-integration analysis, there is no discernible link between the two indexes over time. Their result indicates that the Islamic index is influenced by factors independent from the broad market or interest rates. This result provides a different perspective to the claim by Dow Jones Inc., the publisher of DJIMI, that the index exhibits significant high correlation with the broad market. Therefore, the evidence suggests that such correlation is merely temporary and spurious. However, they also suggest that the Islamic index presents unique risk- return characteristic, an observation reflected in a risk profile significantly different from the Wilshire 5000. The important thing from this result is that the Wilshire 5000 index is considerably more diversified than the Islamic index.

Research Methodology

Data and Sampling

The data utilized in the analysis has been collected from different sources. Data for the Islamic equity this research will use a benchmark of Dow Jones Islamic Index Titans 100. In addition for the *sukuk* the data that used is Dow Jones City Group Sukuk Index. All data has been collected from blomberg.org, yahoofinance.com and the website of Dow Jones. The data used is Monthly data covering the period from October 2005 to August 2010.

Research Methodology

We use several steps to analyze this study:

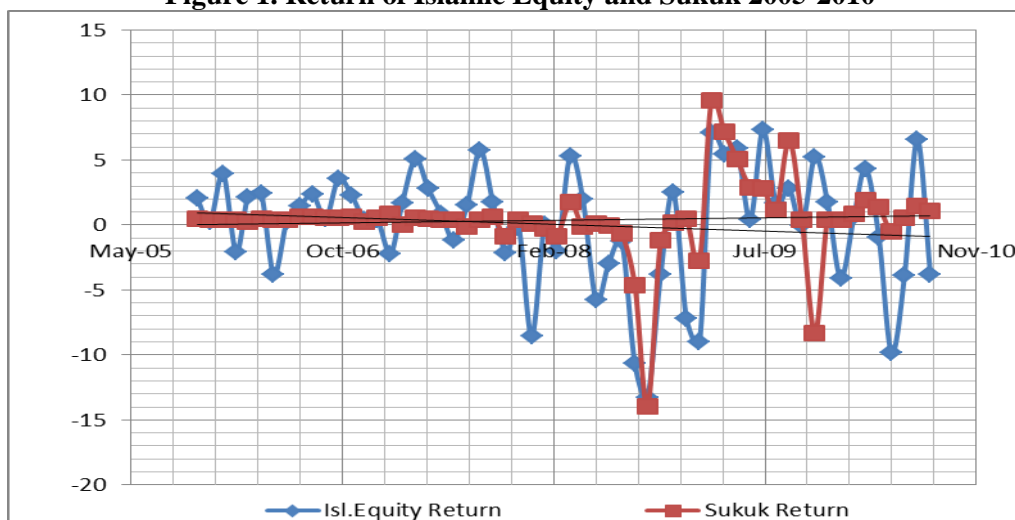
- a. Find the Return of Islamic Equity and Sukuk
- b. Calculate the Risk for Islamic Equity and Sukuk
- c. Measure the performance of Islamic equity and sukuk based on several tools namely; coefficient of variance, Sharpe, Jensen, Treynor.
- d. Provide the descriptive analysis for both securities.
- e. Testing the different return of Islamic equity and sukuk that will use independent sample t-test.
- f. Construct portfolio model for sukuk and Islamic equity, which include two main steps. Firstly, find the minimum variance portfolio that will measure the best weight for each security that the investor must put their money in that security. Secondly, Construct the efficient frontier for the Islamic capital market instrument (Islamic equity and sukuk) based on model of Markowitz.

Research Finding

Return of Islamic Equity and Sukuk

Returns are very important especially in term of financial planning, since they represent growth in the wealth (Reilly and Norton, 2006). Therefore, in the perspective financial planning everyone who interesting to invest they must consider return variable as one of the most important tools to measure the viability of investment activities.

Investor can generate return from two main sources namely from income, from capital gain. This research which use capital gain as main variable in measuring return find that there are quite different return between Islamic equity and sukuk form periods October 2005 till December 2010. The graph below shows the variability of return between Islamic equity and sukuk.

Figure 1. Return of Islamic Equity and Sukuk 2005-2010

From graph above we can generate three main conclusions especially in the perspective of short term purpose. Firstly, Islamic equity provides better return for the Islamic equity holder rather than return that provided by sukuk to its holder. It can be seen from the periods November 2005 until august 2010, that Islamic equity has more return than sukuk. Secondly, during the crisis period in 2008/2009 the return of Islamic equity and sukuk fluctuated very significant in same patterns. As illustrated in the graph above, in 2008 and 2009 Islamic equity and sukuk dropped significantly in September 2008. However, this return of both Islamic securities increased again on February 2009.

Thirdly, the trend of return based on data from 2005 till 2010 shows that the two Islamic securities have different pattern. The trend of return of Islamic equity was decline especially after the crisis periods in 2008. Whereas, sukuk return has upward trend until 2010. It is very important to analyze that before crisis hit; Islamic equity has better performance, while sukuk has low return. However, after the crisis sukuk has better performance than Islamic equity.

In our analysis, the difference return which is owned by the both instrument in fact is depend on the structure of financial instrument itself. Islamic equity instrument is an evidence of ownership of a company that would be very sensitive to the economic condition. Therefore, when financial crisis occurs, then the overall economic situation will be disrupted so that the most significant impact of this is a fundamental deterioration in the company, through the reduction in the company's performance. In these circumstances, investors would take action by selling Islamic equity as the increase of a substantial risk of financial crisis. Selling was done simultaneously and in large volumes will lead to the occurrence of a significant decline in stock prices. Therefore, it was not surprisingly that the Islamic equity experience very poor performance in the crisis period.

Average return and risk of Islamic Equity and Sukuk

Another thing that must be considered in investment in Islamic capital market is average return and risk. Average return can be seen as the expected return of investor. To find the expected return investor can use estimation periods, which in this research the estimation periods is from 2005 till 2010. The table below shows all price and return fluctuation from 2005 until 2010 for Islamic equity and sukuk.

Table 2. Historical Price of Equity and Sukuk

Islamic Equity			Sukuk			
Price	Return		Date	Price	Return	
1956.2899			Oct-05	100.36168		
1996.2561	0.02043	2.043	Nov-05	100.83066	0.004673	0.4673
2001.2047	0.002479	0.2479	Dec-05	101.21641	0.003826	0.3826
2080.3831	0.039565	3.9565	Jan-06	101.63833	0.004168	0.4168
2037.4949	-0.02062	-2.062	Feb-06	102.07513	0.004298	0.4298
2081.7091	0.0217	2.17	Mar-06	102.30601	0.002262	0.2262
2132.9961	0.024637	2.4637	Apr-06	102.82398	0.005063	0.5063
2052.0028	-0.03797	-3.797	May-06	103.22765	0.003926	0.3926
2057.8779	0.002863	0.2863	Jun-06	103.63	0.003898	0.3898
2087.1666	0.014232	1.4232	Jul-06	104.27641	0.006238	0.6238
2135.7318	0.023268	2.3268	Aug-06	104.94367	0.006399	0.6399
2146.4787	0.005032	0.5032	Sep-06	105.52971	0.005584	0.5584
2223.1598	0.035724	3.5724	Oct-06	106.09171	0.005326	0.5326
2274.1409	0.022932	2.2932	Nov-06	106.755	0.006252	0.6252
2284.2367	0.004439	0.4439	Dec-06	107.0577	0.002835	0.2835
2293.4608	0.004038	0.4038	Jan-07	107.67518	0.005768	0.5768
2243.0922	-0.02196	-2.196	Feb-07	108.60958	0.008678	0.8678
2281.6824	0.017204	1.7204	Mar-07	108.60958	0	0
2397.7131	0.050853	5.0853	Apr-07	109.19806	0.005418	0.5418
2465.553	0.028294	2.8294	May-07	109.72599	0.004835	0.4835
2486.8408	0.008634	0.8634	Jun-07	110.13991	0.003772	0.3772
2458.2755	-0.01149	-1.149	Jul-07	110.6293	0.004443	0.4443
2495.9516	0.015326	1.5326	Aug-07	110.51215	-0.00106	-0.106
2640.0703	0.057741	5.7741	Sep-07	110.95149	0.003975	0.3975
2687.2967	0.017888	1.7888	Oct-07	111.6692	0.006469	0.6469
2629.1938	-0.02162	-2.162	Nov-07	110.70086	-0.00867	-0.867
2623.9146	-0.00201	-0.201	Dec-07	111.16148	0.004161	0.4161
2399.3615	-0.08558	-8.558	Jan-08	111.28412	0.001103	0.1103
2400.3192	0.000399	0.0399	Feb-08	110.9981	-0.00257	-0.257
2352.0753	-0.0201	-2.01	Mar-08	110.06156	-0.00844	-0.844
2477.2672	0.053226	5.3226	Apr-08	111.98965	0.017518	1.7518
2526.4113	0.019838	1.9838	May-08	111.82564	-0.00146	-0.146
2381.7633	-0.05725	-5.725	Jun-08	111.95091	0.00112	0.112
2310.0578	-0.03011	-3.011	Jul-08	111.94024	-9.50E-05	-0.0095
2280.9534	-0.0126	-1.26	Aug-08	111.18026	-0.00679	-0.679
2037.5865	-0.1067	-10.67	Sep-08	106.04096	-0.04622	-4.622
1767.6921	-0.13246	-13.246	Oct-08	91.27427	-0.13925	-13.925
1700.2559	-0.03815	-3.815	Nov-08	90.18726	-0.01191	-1.191
1743.4692	0.025416	2.5416	Dec-08	90.35474	0.001857	0.1857
1617.9651	-0.07199	-7.199	Jan-09	90.78428	0.004754	0.4754
1471.8539	-0.09031	-9.031	Feb-09	88.29029	-0.02747	-2.747
1576.0217	0.070773	7.0773	Mar-09	96.73938	0.095697	9.5697
1662.0595	0.054592	5.4592	Apr-09	103.68299	0.071776	7.1776
1759.9252	0.058882	5.8882	May-09	108.91181	0.050431	5.0431
1767.2696	0.004173	0.4173	Jun-09	112.09467	0.029224	2.9224
1896.9864	0.0734	7.34	Jul-09	115.29154	0.028519	2.8519
1928.9884	0.01687	1.687	Aug-09	116.62287	0.011548	1.1548
1982.7519	0.027871	2.7871	Sep-09	124.22469	0.065183	6.5183
1981.963	-0.0004	-0.04	Oct-09	124.72769	0.004049	0.4049
2085.2064	0.052091	5.2091	Nov-09	114.36286	-0.0831	-8.31
2121.3431	0.01733	1.733	Dec-09	114.86749	0.004413	0.4413
2034.9977	-0.0407	-4.07	Jan-10	115.34751	0.004179	0.4179
2047.759	0.006271	0.6271	Feb-10	116.36477	0.008819	0.8819
2136.7841	0.043474	4.3474	Mar-10	118.56741	0.018929	1.8929
2117.1417	-0.00919	-0.919	Apr-10	120.21484	0.013894	1.3894
1909.5028	-0.09808	-9.808	May-10	119.62961	-0.00487	-0.487
1835.822	-0.03859	-3.859	Jun-10	120.282	0.005453	0.5453
1956.2983	0.065625	6.5625	Jul-10	122.07184	0.01488	1.488
1882.4862	-0.03773	-3.773	Aug-10	123.41546	0.011007	1.1007

The table above describes that the price of Islamic equity that vary significantly. From the beginning in November 2008 the return of Islamic equity was positive around 3.9%. However, the return then dropped to be negative in the first year 2008 which Islamic equity lose around -8.5%, and the loses was increase in October 2008 that about -13.45%. After 2008, when the financial crisis hit, there is fluctuation of Islamic equity return. In contrast, although the return of sukuk was quite low but it was quite stable from 2005 till 2010.

Use the arithmetic means this research finds that sukuk has higher average return than Islamic equity. During the estimation periods average return of Islamic equity is about 0.0378%, and sukuk return was around 0.0407%. This return was happen which the Islamic equity has lower return caused by the condition of financial and economic which in crisis. Therefore, in the short term actually Islamic equity can provide a higher return, but for the long term the return is very low. It evidenced by the Geometric mean of Islamic equity return that around -0.10289% monthly or equivalent to -1.235% p.a. It means that, if we invest our money in Islamic equity in the long periods, the value of our wealth will be eroded. Moreover, the geometric mean of sukuk return was increased very significant that around 0.3601% or 4.2312% annually.

Table 3. Average Return And Risk

	Islamic Equity	Sukuk
average return	0.000378	0.004047
standard deviation	0.04538	0.030634
Variance	0.002059	0.000938

In addition, in term of risk, sukuk has lower risk that about 0.0306 than Islamic equity which at 0.04538. Risk is very important part of investment and accumulation of wealth since it can determine the success of investment activities. There are many risk in Islamic securities, but in overall can be categorized as systematic risk and unsystematic risk. In sukuk also face default risk that this is very crucial for the investor. Therefore, in our point of view determining risk is one of the most important things in investment activities.

Sharpe, Jansen, Treynor indicator to measure the performance of securities

The Adjusted Sharpe index, Treynor Index and Adjusted Jensen index were utilized in ascertaining the index performance and ranking itself. The formulas as described in the theoretical models were used in obtaining the three indices for the markets (Maslina and Haron, 2010).

Table 4. Sharpe, Treynor and RAP (Arithmetic Means)

	Islamic Equity	Sukuk
Sharpe	-0.87311591	-1.1736
Treynor	-0.039622	-0.036
RAP	0.000378	0.04012

Based on the three performance indicators, the sukuk performs better than Islamic equity. Form the arithmetic mean the Treynor indicator for sukuk is about -0.036, better than the Islamic equity which around -0.0396. However, Sharpe indicator shows that Islamic equity has better performance than sukuk. In addition, RAPM also describes that Sukuk has better performance than Islamic equity.

Table 5. Sharpe, Treynor and RAP (Geometric Means)

	Islamic Equity	Sukuk
Sharpe	-1.399294844	0.07547
Treynor	-0.0635	0.00231
RAP	-0.0235	0.04012

Furthermore, in term of geometric means which is maybe more proper in this analysis since long-term analysis shows that in summary sukuk has better performance than Islamic equity. The table above illustrates that all indicators of Islamic equity is negatives meaning that in term of investment, investor will lose. In contrast, sukuk has positive performance indicator, including Sharpe, Treynor and RAP.

Testing Hypothesis

To determine there is significant different between return of Islamic equity and sukuk this study will conduct hypothesis testing. The null and alternative hypothesis stated in the following form.

$$H_0: \mu_1 = \mu_2$$

$$H_a: \mu_1 \neq \mu_2$$

With the level of significance at 0.05, means that if probability > 0.05 , do not reject H_0 .

Table 6. Group Statistics

	SECURITY	N	Mean	Std. Deviation	Std. Error Mean
RETURN	SUKUK	58	.00404664	.030633696	.004022401
	ISL.EQUITY	58	.00037814	.045380026	.005958689

Since the probability of error is $> .05$, do not reject the null hypothesis of no difference and conclude that there is not a significant difference between the mean return of Islamic equity and sukuk. It means that there are no significance different return between Islamic equity and sukuk. Therefore, for the investor they can chose one of these securities to invest their money.

Table 7. Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
RETURN	Equal variances assumed	14.684	.000	.510	114	.611
	Equal variances not assumed			.510	100.016	.611

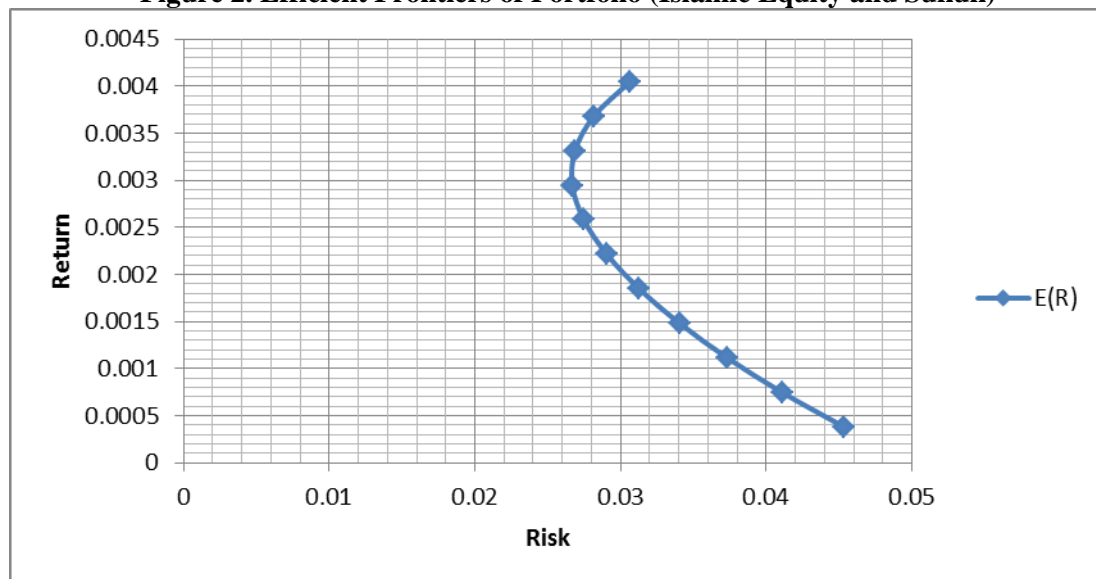
Portfolio Investment

In this part, this study trying to analyze the best efficient frontier of portfolio between sukuk and Islamic equity. The table below shows the return and risk of portfolio which the component is Islamic equity and sukuk. From the several weight probabilities, we find some different returns and risks of portfolio. The return that used is arithmetic return.

Table 8. Risk and Return Based on Weight Assets (Equity and Sukuk)

Portfolio	W Isl.equity	W sukuk	Return Portfolio		Risk Portfolio
	0	1	0.004047	0.000938	0.030627
1	0.1	0.9	0.0036801	0.000793	0.028156
2	0.2	0.8	0.0033132	0.000722	0.026866
3	0.3	0.7	0.0029463	0.000712	0.026689
4	0.4	0.6	0.0025794	0.000755	0.027479
5	0.5	0.5	0.0022125	0.000845	0.029064
6	0.6	0.4	0.0018456	0.000979	0.031294
7	0.7	0.3	0.0014787	0.001161	0.034069
8	0.8	0.2	0.0011118	0.001394	0.037342
9	0.9	0.1	0.0007449	0.00169	0.041104
10	1	0	0.000378	0.002059	0.045376
Best Portfolio	0.11849962	0.88150038		0.000774	0.027829

From the table above investor who interest in Islamic securities can choose in which position they will put their money. After that, investor also can see from the graph below that describes the efficient frontier of Islamic portfolio. The table below shows the efficient position of investment in both sukuk and Islamic equity. It is very important to investor in order to understand their right position in investment.

Figure 2. Efficient Frontiers of Portfolio (Islamic Equity and Sukuk)

This study also aims to give an idea of how much investors are putting money into their portfolio respectively between Islamic equity securities and sukuk. Moreover, this will also determine how many return most obtained with the lowest risk level. From the calculation, the study concluded that in order to generate a certain return to the most minimal risk, then the investor should put their fund on Islamic equity for 11.85% and in sukuk about 88.15%.

Table 9. Minimum Variance Portfolio

MVP b	0.00129509
	0.00146919
	0.88150038
Wb (sukuk)	0.88150038
Wa (Islamic Equity)	0.11849962

Conclusion

This study conclude that Islamic equity and sukuk are the two main islamic capital market instrument that we must develop it to be more shariah compliance, if we want to get the best choices in our investment. Based on quantitative analysis Sukuk provides a better return as well as lower risk. However, in the short term, islamic equity is often provide a higher return than sukuk. In addition, from the several measurement tools, this research also finds that sukuk has a better performance than islamic equity. In contrast, statistical testing shows that there are no significance differences return between Islamic equity and sukuk from 2005 till 2010. Therefore, this research suggest that investor/people who want to increase their wealth and prefer to invest in islamic capital market, they should make a islamic portfolio include some securities component, sukuk, islamic equity, islamic unit trust, islamic etf, etc.

Reference

- Ahmad Muhayyuddin, H. (1407/1986). Amal Sharikat al-Istithmar al-Islamiyyah fil suq al-Alamiyyah, *Al-Dar al-Saudiyyah lil-Nashr wal Tawzi*, 268-271.
- Al-Suyuti, Al-Asybah wa al-Naza'ir, Dar al-Kutub al-'Ilmiyyah, Beirut, 1994.
- Al-Amine, M.M.A. (2008). Risk Management in Islamic Finance an Analysis of Derivative Instrument in Commodity Market, The Netherlands: Brill.
- Al-Bukhari, (1422). Al-Jami' al- Musnad al Sahih, Dar Tuq al Najah.
- Al-Bayhaqi, (1422). Al-Sunan al-Kubra. Beirut: Dar' al Kutub al 'Ilmiyah.
- Al-Saati, A.R. (2003). The Permissible *Gharar* (Risk) in Classical Islamic Jurisprudence. *J.KAU: Islamic Econ.*, Vol. 16, No. 2, pp. 3-19.
- Al-Zuhayli, Wahbah, (2003). Financial Transaction in Islamic Jurisprudence. Translted by El-Gamal M.A, Damascus: Dar al-Fikr (1).
- Abu Sulayman, AWI. (1413H/1992). Al-Ikhtiyarat: Darasah Fiqhiyya Tahliliyyah Muqaranah, *Mujallah al-Buhuth al-Fiqhiyyah alMuasarah*, 4(15), 32-33.
- Anwar, M. (1995). An Islamic Perspective on Capital Markets and "Islamic" Securities in Malaysia. *The Pakistan Development Review*, 34(4), 865-878.
- Black, F. and Scholes, M. (1973). The Pricing of Options and Corporate Liabilities. *The Journal of Political Economy*, 81(3), 637-654.
- Byoun, S. and Park, HY. (2009). Arbitrage Opportunities and Efficiency of An Option Market at its Initial Stage: The case of KOSPI 200 options in Korea. *Research in Finance*, 25, 269-301.
- Chan, FL and Sy, M. (1997). Pricing Warrants in Thin Markets: Jump Diffusion vs Modified Black-Scholes in the Kuala Lumpur Stock Exchange, RMIT, Unpublished.
- Chang, EC., Luo, X., Shi, L. and Zhang, JE. (2013). Is Warrant Really a Derivative? Evidence from the Chinese Warrant Market. *Journal of Financial Markets*, 16(1), 165-193.
- Chung, S.L., Liu, W.R. and Tsai, W.C. (2014). The Impact of Derivatives Hedging on the Stock Market: Evidence from Taiwan's Covered Warrants Market. *Journal of Banking and Finance*, 42 (1), 123-133.
- Dubofsky, DA. (1992). *Options and Financial Futures: Valuation and Uses*. McGraw-Hill, New York.
- El Diwany, T. (2003). *The Problem with Interest*. London, Kreatoc Ltd.
- El Gari, MA. (1993). Towards an Islamic Stock Market. *Islamic Economic Studies*, 1(1), 1-20.
- Fama, E.F. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. *The Journal of Finance*, 25(2), 383-417.

- Haron, R. (2006). The Pricing Efficiency of Equity Warrants: A Malaysian Case. *The ICAFI Journal of Derivatives Markets*, 3(3), 6-22.
- Helliar, C. and Alsahlawi, A. (2011). Islamic Derivatives. *Journal of Corporate Treasury Management*, 4(2), 120-128.
- Jobst, A. and Sole, J. (2012). Operative Principles of Islamic Derivatives-Towards a Coherent Theory, International Monetary Fund Working Paper.
- Kamali, M.H. (1997). Islamic Commercial Law: An Analysis of Options. *The American Journal of Islamic Social Sciences*, 14(3), 17-37.
- Kuwahara, H. and Marsh, T.A. (1992). The Pricing of Japanese Equity Warrants. *Management Science*, 38(11), 1610-1641.
- Liu, M.H. and Rangan, N.K. (2011). The Information Content of the Implied Volatility of Retail Equity Option Market. Proceedings of Macao International Symposium on Accounting and Finance.
- Macbeth, J.D. and Larry, J.M. (1979). Tests of the Black-Scholes and Cox Call Option Valuation Models. *The Journal of Finance*, 35(2), 285-301.
- Obaidullah, M. (1999). Financial Options in Islamic Contracts: Potential Tools for Risk Management. *KAU Journal of Islamic Economics*, 11, 3-26.
- Obaidullah, M. (2002). Islamic Risk Management: Towards Greater Ethics and Efficiency. *International Journal of Islamic Financial Services*, 3(4), 30-48.
- Obiyathulla, I.B. (1999). Derivative Instruments and Islamic Finance: Some Thoughts for A Reconsideration. *International Journal of Islamic Financial Services*, 1(1), 9-25.
- Obiyathulla, I.B. (2012). *Financial Derivatives Markets and Application in Malaysia*. Mc-Graw Hill.
- Salehabadi, A. and Aram, M. (2002). Islamic Justification of Derivative Instruments. *International Journal of Islamic Financial Services*, 4(3), 11-17.
- Sukor, M.E.A. and Obiyathulla, I.B. (2010). Pricing Efficiency of Stock Rights Issues in Malaysia. *Applied Financial Economics*, 20(22), 1751-1760.